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PUBLIC UTILITIES COMMISSION

The Honorable Chairman and Members of
The Hawaii Public Utilities Commission
Kekuanoa Building
465 South King Street, First floor
Honolulu, Hawaii 96813

Re: Docket #03-0371 – In the matter of the Public Utilities Commission Instituting a Proceeding to Investigate Distributed Generation in Hawaii.

I am the energy consultant to Kahala Nui Senior Living Community. Prior to the construction of this complex, I recommended the hiring of Lincolne Scott to evaluate ways to further improve the energy efficiency of Kahala Nui and the method we agreed to was to implement a 300kW Combined Heat and Power plant (CHP).

We are alarmed that the proposed tariff will seriously affect the lives of nearly 500 senior citizens who live at the Kahala Nui Senior Living Community (KSLC). How and why do I say this? Well the added cost for implementing the CHP was about $600,000 and the expected reduction in operating costs was calculated at over $150,000 per year. The proposed tariff would all but eliminate this savings and would render the $600,000 investment useless. As the budgets were developed based on the savings from the CHP, without it, the $150,000 will have to be passed on to the senior citizens. Passing on just the added tariff costs to the seniors will increase their maintenance fee about $600 a year.

I was on the DSM review board for several years while I was the Director of Engineering for Outrigger Hotels. I attended all the meetings, listened to all the proposals and programs that HECO developed to implement DSM. Outrigger implemented numerous DSM programs under my watch, but one thing that was obviously evident in all the DSM programs was HECO's absolute competitive attitude about losing share to The Gas Company. DSM should be an open forum to look at all the ways to reduce the dependency of crude oil and avoid having to build additional power plants, but the present DSM administrative system is like having the fox guarding the hen house. CHP is one concept that should be eligible for a significant DSM rebate. No one can argue that burning diesel or gas to generate power and hot water is more efficient than just generating power with the fuel. By all rights CHP is the biggest and best method for achieving the goals of DSM. The restriction in the DSM program that bans anything that involves fuel switching fails to recognize the global overall character of the intent of DSM and that is to look for the best solution to reduce energy consumption, not just a solution that is in

HECO's best interest. PUC is the only authority over HECO and really needs to mandate revising the DSM program to incorporate representatives from The Gas Company and the whole community, but that is not the point at hand. To our way of thinking, the PUC should be mandating to HECO to include CHP in their DSM rebate packages, not what HECO is proposing under this tariff.

HECO proposed several DSM plans while I worked at Outrigger. One plan was HECO wanted to install remote controllers on our emergency generators such that they could activate them at their discretion. The benefit offered to the generator owners was discounted kW rates. This program was flawed in that emergency generators are noisy and typically only run life-safety components of the hotels. Shutting down the hotel's air conditioning and running noisy generators so the hotel can save money just doesn't pan out.

It is very clear that when HECO investigated CHP, calling it Distributed Generation (DG), they found that the savings due to CHP were tremendous and its impact on HECO would be a challenge to HECO hold their profit margins if they were not in control of it. As the PUC put restrictions on HECO in their effort to participate in the CHP market, that lead HECO to decide not to pursue this work, such that they are now resorting to this tariff to protect their inefficiencies.

Just a few months ago representatives of HECO met with the Executive Director of Kahala Nui and offered some $70,000 per year discount to Kahala Nui if we agreed to not use the CHP. Certainly HECO knew fairly accurately what the savings would be and appealed to the board to eliminate their risks and operating costs with a sure thing savings. Unfortunately the savings were not enough and Kahala Nui continues on with the CHP program.

For HECO to now say they need to seek a tariff for CHP means that a user is assessed two penalties for the same reason. HECO already has a Demand Charge that should the user's plant shutdown, and then the user would most likely experience a peak demand charge and already would have to pay HECO that Demand charge for the next 12 months. How different is this than what is now being asked for?

We ask for the PUC to deny this attempt to penalize those who are proactive and spend the money to increase their energy efficiency. We ask the PUC to demand for HECO to embrace CHP as a solution to their problems and start working in getting more CHP plants in operation.

Thanks for your consideration.

Steve Timpson